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17 March 1982

MEMORANDUM FOR THE RECORD

SUBJECT: CCCT Meeting

1. On 17 March, I attended that portion of a CCCT meeting devoted to a status report on the CCCT Study on High Technology Industries. (A copy of the report is attached.)

2. Secretary Baldrige began by introducing the fellow currently responsible for drafting the report, Bill Finan. Following Bill's summary of the attached status report, Ambassador Brock said that he had talked with lots of CEOs of US high technology companies recently and none seem to have been approached about this exercise. He thought that they should be. He suggested bringing in 10 to 15 CEOs to discuss the draft report when it is ready on 10 April. Secretary Baldrige agreed and said that he and Ambassador Brock should put together an appropriate list. (If the DCI wants to make some suggestions about this list, he should call Secretary Baldrige who appears to be taking the responsibility for forming the external panel.)

3. Bill Niskanen of the CEA suggested that the study should focus on the question of whether or not US defense spending, on balance, helps or hurts US high technology industrial development. Ambassador Brock observed that he had heard from many people that defense industries are five to ten years behind non-defense industries in applying high technology.

4. Bob Hormats and William Baxter observed that the study should focus on antitrust law and the tax treatment of R&D. Several members of the CCCT observed that the US is now behind in robotics, an area we once dominated. The study should explain how this happened. Tim McNamar said that government procurement

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was an important part of the issue. He said that it was embarrassing that Treasury had only this year gotten rid of its last IBM 1401 computer. William Baxter agreed with this observation, pointing out that Justice had acquired two new Amdahl computers which no one in his building knows how to use.

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Chief,
Economics Division
Office of Global Issues

Attachment:
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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR: MEMBERS OF THE CABINET COUNCIL ON
COMMERCE AND TRADE (CCCT)

FROM: Malcolm Baldrige , Chairman Pro Tempore MB
Cabinet Council on Commerce and Trade

SUBJECT: Status Report on CCCT Study on High Technology
Industries

1. The four components of the CCCT study are:

- A. overview of U.S. high technology trade competitiveness,
- B. examination of specific industries (for example,
software, robotics, etc.)
- C. examination of economic, national security implications,
- D. examination of relevant factors affecting competitiveness
 - financial
 - human resources
 - industrial policies
 - industrial organization

2. To broaden the information base we have:

- A. Consulted with relevant Industry Sector Advisory
Committees (ISACs);
- B. Developed informal contacts with Labor, Defense, USTR,
ITC, and State;
- C. Developed informal contacts with the following
Congressional offices: Office of Technology Assessment,
Congressional Budget Office, Joint Economic Committee, and
the House Ways and Means Committee;

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- D. Meet with executives of U.S. high technology companies;
 - E. Contacted others conducting research on high technology industries, such as the National Academy of Science;
 - F. Involved the Commerce's Bureau of Industrial Economics (BIE) in industry sector analyses.
3. For the purposes of the CCCT Study, high technology industries are those which are research intensive. Industries so identified are components of the following basic sectors:
- aerospace
 - chemicals
 - machinery (electrical and non-electrical)
 - scientific equipment

Research and development efforts relative to gross sales for these industries is markedly greater than for all other manufacturing sectors.

4. Some service-related activities such as software development or computer assisted design are integrally related to high technology manufacturing sectors (e.g. computer equipment and semiconductor production.) This blurs the clean distinction often made in international negotiations between services and goods. Although the study will assess the linkages between these sectors, service activities, per se, are not in themselves identified as high technology.

Regardless of the way high technology industries are identified, various measures of competitiveness, such as share of world exports, show a consistent decline.

5. There are several policy initiatives relating to issues of high technology trade, either already underway or likely to begin in the near future. For example:
- USTR is pressing to have high technology discussed in the GATT Ministerial and a working group formed afterwards,
 - the Secretary General of the OECD has identified high technology issues as potentially needing attention,
 - the Japanese have suggested that a bilateral "forum" be established to discuss high technology industry issues.

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The CCCT study will form the backdrop for possible USG initiatives on high technology issues in these forums.

6. Despite difficulties in precisely defining the term "high technology" industry and the fact that industries covered by the definition represent a wide variety of industrial activities, there seem to be compelling reasons for the USG to seek to have certain issues addressed under the high technology label. The following preliminary observations illustrate why we have a greater stake than our major trading partners high technology industries.
 - U.S. exports are more heavily tilted towards high technology goods than those of any other country,
 - U.S. high technology goods have lost competitiveness in world markets; this is especially evident in third world countries;
 - the maturation of world economies, especially those of Japan, France, and Germany, has eroded the relative advantage the U.S. used to enjoy in research; the industrial infra-structures of these countries are approaching the U.S. in sophistication; for example, while the U.S. maintains an absolute lead in the numbers of scientific and technical personnel, the relative advantage has declined,
 - other governments are actively channeling resources into high technology sectors -- these activities may intensify the process of general erosion of U.S. technical lead,
 - Japan has closed rapidly on the U.S. lead in a number of high technology sectors; the likely result is that in the future both countries will be specializing in exporting similar products; this underscores the need to gain access to the Japanese markets for U.S. high technology products.
7. An initial draft of the four components identified in paragraph 1 will be circulated for review by April 10.

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